

The Role Of Exemptions in Ghana's Trade Regime:
2000-2002

September 2003



Sigma One Corporation

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by:

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In fulfillment of the following milestones:

- 2.39 Analyze import exemptions, report on their impact on revenues and recommend changes in exemptions**

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Each good imported into Ghana has a statutory duty based on its Harmonized System (HS) code. Representative duty rates during the period 2000-2002 have been 0%, 5%, 10%, 20%, and 25%. Over this period, the range of statutory rates has narrowed. For example, some goods that were taxed at 0% were moved to 5%, while goods taxed at 25% had their rates lowered to 20%. Many goods enter Ghana under one of several different kinds of exemption. Generally, this means that the good enters at a rate that is lower than its statutory rate. Also, certain manufacturers can import goods at concessionary rates.

In this analysis, we use the Customs Procedure Code (CPC) under which the import occurred to classify the transaction as dutiable, exempt, or concessionary. (Another category of import was designated "non-statistical" and applied to items imported under diplomatic privileges, bunker fuel for planes, etc. Non-statistical imports were excluded from this analysis.) Data consisted of customs records on individual import transactions through the ports of Tema, Takoradi, and Kotoka International Airport for the years 2000-2002.

A concern that had emerged from a previous analysis of customs procedures (Bajracharya and Flatters, 1999) was that exemptions were being granted too freely, leading to significant losses of revenue. This brief examines the role of exemptions in total imports over the three year period from 2000-2002 and examines the implications for tariff revenues of restricting certain exemptions.

The Role of Exemptions in Total Imports

Goods brought in under exemptions declined from 31% of total imports in 2000 to 21% in 2002, while dutiable goods increased from 61% of total imports to 72% over the same period (**Table 1**). As a result, the percentage of tariff revenues accounted for by dutiable goods increased from 70% in 2000 to 79% in 2002 (**Table 2**). Another consequence of the decrease in the share of exempted goods in total imports is that revenue losses from granting exemptions also decrease. For example, in 2000 duties collected on exempted goods accounted for 21% of total import duties. This implied a revenue loss of some amount, as the exempted goods

Table 1. Import Value Shares by Duty Status

	2000	2001	2002
Dutiable	61%	67%	72%
Exemptions	31%	25%	21%
Concessions	8%	8%	7%
Total Imports (C bn)	11,391	14,591	16,068

Table 2. Import Duty Shares by Duty Status

	2000	2001	2002
Dutiable	70%	72%	79%
Exemptions	21%	19%	14%
Concessions	8%	9%	6%
Total Duties (C bn)	868	1,156	1,359

presumably came in at lower rates than had they not been exempted. By 2002, with the share of exempted goods in total imports down to 21%, duties on exempted goods accounted for only 14% of the total. Thus, while there is still a loss of revenue occurring because of the exemptions, it is smaller as a result of the restrictions apparently imposed on granting exemptions.

Nevertheless, the 21% of imports that came in under exemption in 2002 might contribute substantially to the tax base, and thereby to tariff collections, if the exempt categories were either eliminated or further restricted. However, as Bajracharya and Flatters (1999) note, many of the exemptions are granted under international treaties and agreements, or are granted to sectors producing exportable products. Examples of these exemptions, which we call “non-taxable exemptions”, are ECOWAS-designated imports, grants and aid, the Mining and Minerals Commission (M&MC), and the Volta Aluminum Company (VALCO). As a share of total exemptions, so-called non-taxable exemptions increased from 45% in 2000 to 53% in 2002 (**Table 3**). Taxable exemptions, which could potentially widen the tax base, declined from 17% of total imports in 2000 to less than 10% in 2002. This supports the notion that the Government of Ghana has been taking steps to restrict imports coming in under exemptions over which it has control.

Table 3. Characteristics of Exempted Imports

	2000	2001	2002
Taxable Exemptions	55.4%	51.4%	47.3%
Non-taxable Exemptions	44.6%	48.6%	52.7%
Total Exemptions (C bn)	3,579	3,631	3,341
Taxable as % of imports	17.4%	12.8%	9.8%

Revenue Implications of Additional Restrictions on Exemptions

To examine the revenue implications of further restrictions on exempted imports, we begin by looking at the effective duty rates on different categories of imports (**Table 4**). The effective duty rate for a selected category of goods is calculated by dividing the import duties collected for that category by the value of imports for that category. The effective rate for a category will depend on the mix of statutory rates (0%, 5%, 10%, 20%, 25%) of the goods in that category and how effectively those rates are applied by CEPS. Goods classified as taxable exemptions have the lowest effective rate of duty of all the categories. Dutiable imports and those coming in under concessions have the highest effective rates in any given year. The average rate for all imports increased from 7.6% in 2000 to 8.5% in 2002.

Table 4. Effective Duty Rates by Duty Status of Import

	2000	2001	2002
Dutiable	8.8%	8.5%	9.3%
Taxable Exemptions	4.8%	5.2%	4.8%
Non-taxable Exemptions	5.7%	6.8%	6.8%
Concessions	8.2%	9.3%	7.8%
All Imports	7.6%	7.9%	8.5%

This suggests that if some of the taxable exemptions were rescinded and the goods became dutiable, on average a significantly higher rate of duty (3 to 4 percentage points) would apply to formerly exempted goods and that this would result in a noticeable increase in revenue. To better understand which taxable exemptions might be restricted we look at a detailed breakdown (**Table 5**). Exemptions granted by the Ministry of Finance dominate taxable exemptions; their share has increased steadily from 57% in 2000 to 80% in 2002. Any significant increases in international trade taxes would have to come from reducing MFEP exemptions.

The effective tax rate on MFEP exemptions (**Table 6**) can be compared with the effective tax rate on dutiable goods to approximate the revenue impacts of reducing MFEP exemptions. The difference between the effective rate on dutiable imports and that on MFEP exemptions was 2.5 percentage points in 2000, 2 percentage points in 2001, and 4.3 percentage points in 2002. These differences can be used to provide a rough estimate of potential revenue gains if some of the MFEP exemptions were rescinded.

Table 5. Value of Imports by Taxable Exemption Category (C bn)

	2000	2001	2002
Head of State	19.5	18.0	6.5
Personal Effects	418.6	347.1	144.3
Investment Code	233.7	107.7	83.6
Ministry of Finance	1,123.1	1,333.2	1,267.0
National Revenue Secretariat	4.6	8.0	14.7
Volta River Authority	184.0	52.8	63.4
Total Taxable Exemptions	1,983.6	1,866.8	1,579.4

Table 6. Effective Tax Rate by Exemption Category

	2000	2001	2002
Head of State	4.4%	0.7%	4.2%
Personal Effects	0.1%	0.0%	0.1%
Investment Code	5.6%	6.8%	8.6%
Ministry of Finance	6.3%	6.5%	5.0%
National Revenue Secretariat	5.5%	9.6%	6.8%
Volta River Authority	5.4%	4.2%	6.2%
Total Taxable Exemptions	4.8%	5.2%	4.8%

We examine 3 scenarios to determine a range of potential revenue increases. We use the 2002 value of MFEP exemptions (C1,267 billion) as a baseline and assume these are reduced by 25, 50, and 75 percent in the 3 scenarios. The value of the MFEP exemptions remaining after the hypothesized reductions are given in the first line of **Table 7**. The addition to the tax base in each scenario is the difference between the 2002 baseline value and the remaining MFEP exemptions, which is given in the second line of the table. The increased revenue from the wider tax base is estimated by assuming that the average effective duty on the newly dutiable goods will increase by 3 percentage points. This falls within the range of 2 to 4.3 percentage points that represented the difference between the effective rate on dutiable goods and the effective rate on MFEP exemptions from 2000-2002. The calculated increase in revenues is

given in the third line of the table. Finally, these increases are given as a percentage of total duties collected in 2002 (fourth line of table).

Table 7. Revenue Impacts of Reducing MFEP Exemptions (C mn)

	25% reduction	50% reduction	75% reduction
Value of remaining MFEP exemptions (based on 2002 value)	950,239	633,493	316,746
Addition to tax base (based on 2002 value)	316,746	633,493	950,239
Additional revenues	9,502	19,005	28,507
as % of 2002 duty collections	0.7%	1.4%	2.1%

The revenue impacts range from C9.5 billion to C28.5 billion as the severity of the reductions increases. Under a 25% reduction in MFEP exemptions, revenues would have increased by less than 1% of total 2002 duty collections. If MFEP exemptions were reduced by 75%, revenues would increase by just over 2% of the 2002 total.

These are rough estimates of the revenue impacts. If fewer goods were imported as exemptions were rescinded and the goods were subjected to a higher rate of duty, the revenues might be less. A more accurate calculation of revenue impacts could have been performed if the statutory rate for each HS code were available for each year. Unfortunately, this information is not available.¹ Attempts to deduce the statutory rate by parsing the transactions data did not yield information of sufficient clarity to warrant a prominent place in this analysis.

References

Bajracharya, R. and F. Flatters. "Ghana's Trade Policies: Exemptions from Import Duty." International Institute for Advanced Studies. Prepared for Sigma One Corporation for submission to USAID/Ghana. November 1999.

¹ Statutory rates for all HS codes are available for 2003. Records for previous years are overwritten, since they are of no operational use to CEPS.